

DEPARTMENT OF TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK
(FinCEN)

FISCAL YEAR 2006
CONGRESSIONAL BUDGET SUBMISSION

FINANCIAL CRIMES ENFORCEMENT NETWORK (FinCEN)
FY 2006 CONGRESSIONAL PERFORMANCE BUDGET REQUEST

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SECTION 1 - STRATEGIC CONTEXT

STRATEGIC CONTEXT FOR THE FY 2006 BUDGET/PERFORMANCE PLAN (EXHIBIT 1a)

This document presents justification of the FY 2006 Performance Budget Request by demonstrating how the requested funding will enable the Financial Crimes Enforcement Network (FinCEN) to achieve its strategic goals, and how performance measures and indicators allow FinCEN to ascertain achievement of those goals. FinCEN supports the Treasury Department's strategic goal to "Preserve the integrity of financial systems" and its strategic objective to "Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks."

Mission

FinCEN is a key organizational element in Treasury Department's Office of Terrorism and Financial Intelligence (TFI), reporting directly to the Under Secretary of Treasury for Terrorism and Financial Intelligence. The mission of the Financial Crimes Enforcement Network is to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

We achieve this mission by administering the Bank Secrecy Act; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information. To accomplish this, FinCEN works in close coordination with TFI's Office of Intelligence and Analysis in developing strategic analysis for Treasury policy makers.

FinCEN was established in April 1990 to provide a government-wide, multi-source intelligence and analytical network. FinCEN's operation was broadened in 1994 to include regulatory responsibilities. In October 2001, the USA PATRIOT Act elevated FinCEN to bureau status. Counter-terrorism support to law enforcement and intelligence communities became FinCEN's highest operational priority, in conjunction with the USA PATRIOT Act. Today, FinCEN supports Treasury's new Office of Terrorism and Financial Intelligence, which was established to strengthen Treasury's ability to wage a long-term fight against terrorism.

To make maximum effective use of FinCEN's unique responsibilities and analytic capabilities in the terrorism context as well as money laundering and financial crime areas, we must focus resources on implementing our terrorism related strategic objectives: 1) validate and analyze every Suspicious Activity Report that indicates a connection to terrorism; 2) devote analysts to study Bank Secrecy Act data and all other available information in order to gain an increased understanding of methodologies, typologies,

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geographic patterns of activity and systemic vulnerabilities relating to terrorist financing; 3) apply additional analytic, regulatory and legal resources in support of Treasury responsibilities under §§ 311 and 314(a) of the Patriot Act; 4) increase the exchange of terrorist financing investigative and analytical information with other foreign financial intelligence units around the world; and 5) enhance our outreach program to educate small money services businesses about terrorist financing and regulatory requirements.

Key Strategic Issues

Regulatory:

The administration of the regulatory regime under the Bank Secrecy Act is a core responsibility for FinCEN. The financial services industry's positive response in complying with the statutory and regulatory requirements of the Bank Secrecy Act has strengthened the foundation of our efforts to safeguard the financial system from criminal abuse and terrorist financing. We work with the financial services industries and our regulatory partners to implement regulations, providing constant feedback and guidance. FinCEN also administers and enforces the statutory and regulatory requirements by working through our regulatory partners. Our regulations have also required financial institutions to establish anti-money laundering programs that are risk based – custom tailored to each institution based upon the business in which that institution engages. Our challenge is to find ways to assist the industry in identifying these risks using more sophisticated analysis and creative outreach.

Perhaps the most significant challenge in this area lies in ensuring that all segments of the regulated industry understand both the reasons for and requirements of the Bank Secrecy Act. Expansion of the anti-money laundering regime to money services businesses, casinos, securities broker-dealers, credit card system operators, mutual funds, and futures commission merchants, including introducing brokers, has vastly expanded the number of businesses requiring oversight. We rely on the Internal Revenue Service to examine non-bank institutions, which are not otherwise examined by a federal functional regulator for compliance with the Bank Secrecy Act. We must work with all federal regulators responsible for examining financial institutions for Bank Secrecy Act compliance to ensure that these regulatory programs are implemented in a fair and consistent manner that is focused on achieving the goals of the Bank Secrecy Act. Although difficult, this is a goal that must be achieved.

FinCEN will also strengthen its oversight of the compliance with the Bank Secrecy Act by the financial services industry through an expanded partnership with the federal regulators. FinCEN will be collecting additional compliance-related information from these federal regulators to enable FinCEN to assess the overall level and quality of compliance by financial services industries with the Bank Secrecy Act to identify common compliance deficiencies, and to develop examiner training and examination best practices.

Global

Globally, FinCEN provides regulatory advice and continues to play a key leadership role in the international network of financial intelligence units (FIUs), known as the Egmont Group. The Egmont Group fosters improved communication and interaction among FIUs in such areas as information sharing and training coordination. The goal of the Group is to provide a forum for FIUs around the

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world to improve support to their respective governments in the fight against financial crimes. This support includes expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of personnel employed by such organizations specifically related to the money laundering and terrorist financing areas, and fostering better and more secure communication among FIUs through the application of technology. Although FinCEN has played a significant role in the growth and health of the Egmont Group and it maintains bilateral information sharing agreements with FIUs around the world, we must step up our international engagement with our counterparts in the terrorism context.

In the international arena, the rapid exchange of financial intelligence among governments has become increasingly important to successfully combating international financial crime. Egmont's Secure Web System permits members of the group to communicate with one another via secure e-mail, posting and assessing information regarding trends, analytical tools, and technological developments. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web. Currently, eighty-three of the ninety-four Egmont Financial Intelligence Units (87%) are connected to the secure web site. FinCEN launched, in June 2004, a new web front-end to improve the content and usability of the Egmont Secure Web site. During FY 2005, FinCEN will also upgrade the Egmont Secure Web to enhance and accelerate the electronic exchange of case information between Egmont members. We expect these upgrades will generate more robust usage, which will in turn also enhance international cooperation between members.

Data Collection and Sharing:

As administrator of the Bank Secrecy Act, FinCEN must ensure the effective collection, management, and dissemination of the highly sensitive and confidential information collected under that Act. To do so, FinCEN must change the way it houses and provides access to information collected under the Bank Secrecy Act. Currently, our data are accessed by most of our customers through an outmoded data retrieval system. This system does not have the robust data mining capabilities or analytical tools we employ at FinCEN. This has led many of our customers to ask for wholesale copies of the data, or direct access to the data in a way that will not permit us to perform our responsibilities relating to the administration of the BSA program and management of the data. Accordingly, we must create a system that allows us to meet our BSA administration responsibilities to (1) effectively monitor and secure the BSA information; (2) network those persons who are querying the data to prevent overlapping investigations and encourage efficient use of law enforcement resources; and, (3) develop and provide adequate feedback to the financial industries we regulate, which will ensure better reporting. In addition, the goal of the new system will be to provide robust data mining and analytical tools to our customers in law enforcement to improve their capabilities to analyze the BSA data. The system that we are developing to satisfy these needs is called "BSA Direct."

Analysis

FinCEN supports law enforcement by analyzing suspicious activity reports, other Bank Secrecy Act data, law enforcement data, and information from other sources for both tactical and strategic value. The challenge for FinCEN is to move its analytic resources toward more robust and sophisticated analyses. FinCEN's goal has been to enable our customers to retrieve data themselves using BSA Direct. In turn, this will allow FinCEN to use more of its resources for substantive analysis rather than routine data retrieval.

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This will also require us to further develop that talent to enable the full exploitation and integration of all categories of financial information – well beyond Bank Secrecy Act information.

FinCEN must upgrade the quality of its analysis related to terrorist financing and money laundering. FinCEN has begun a major initiative to enhance the ability of FinCEN analysts to consider all information sources, including, as appropriate, classified data, when analyzing money laundering and terrorist financing methods. To be successful, this will require an overall upgrade to the security environment, significant investments in training and building analytic skills relating to terrorist financing, upgrade of the analytical software related to text mining, enhanced availability to classified sources through the TDSN network, and an increase in overall personnel security classifications to allow the integration of all information sources.

Managing Resources Effectively:

Since the USA PATRIOT Act elevated FinCEN to Bureau status in October 2001, FinCEN has been working to develop the most efficient and effective systems and administrative processes to support our program goals. These activities, which will continue to impact operations in FY 2006, include re-engineering the FinCEN processes and approaches related to information technology projects in order to meet changing requirements and maximize IT resources.

Changes / Additions between the Strategic Plan and/or Budget Activities (Exhibit 1b)

FinCEN's mission statement is changed to tie more clearly to Treasury's strategic plan.

The new mission statement is to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

FinCEN Support of Treasury Goals and Objectives (Table 1.1)

The table below displays the relationship between FinCEN's strategic and performance goals to Treasury's Strategic Plan.

Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)		
Treasury Strategic Objective	FinCEN Strategic Goal	FinCEN Performance Goals Linked to Strategic Goal
Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks	Regulatory: Support efforts to eliminate safe havens for money laundering and terrorist financing worldwide	Expand the U.S. regulatory framework to cover, as appropriate, all vulnerable industries. Maximize regulatory effectiveness while minimizing the burden on industry. Ensure effective and uniform enforcement of anti-money laundering regulations. Promote the adoption of anti-money laundering and terrorist financing policies globally.
Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks	Data Collection and Sharing: Modernize the collection, maintenance, and retrieval of BSA information	Enhance the timeliness, accuracy, and ease of filing and processing BSA forms. Implement BSA data retrieval system that supports expansion of the Gateway user base. Expand access to BSA data through the Gateway process. Strengthen information sharing among FIUs.
Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks	Analysis: Enhance the value of FinCEN's analytical services and products.	Provide valuable investigative case support. Provide valuable investigative targets. Provide valuable analyses of U.S. and global money laundering and terrorist financing trends. Enhance and accelerate information sharing among law enforcement and financial institutions regarding potential terrorist financing or money laundering schemes.

APPROPRIATION LANGUAGE SHEET AND JUSTIFICATION OF LANGUAGE CHANGES (EXHIBIT 1C)

DEPARTMENT OF TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the Financial Crimes Enforcement Network, including hire of passenger motor vehicles; travel expenses of non-Federal law enforcement personnel to attend meetings concerned with financial intelligence activities, law enforcement, and financial regulation; not to exceed \$14,000 for official reception and representation expenses; and for assistance to Federal law enforcement agencies, with or without reimbursement, [\$72,502,000, of which \$7,500,000 shall be available for BSA Direct;] \$73,630,000 of which not to exceed [\$7,000,000] \$6,944,000 shall remain available until September 30, [2007] 2008; and of which [\$8,354,000] \$8,521,000 shall remain available until September 30, [2006] 2007: Provided, That funds appropriated in this account may be used to procure personal services contracts[: *Provided further*, That up to \$350,000 of the funds under this heading may be available for planning, sponsoring, administering, receiving, and such other expenses as the Director deems necessary, including reception and representation expenses, to host the 2005 Annual Plenary of the Egmont Group].

JUSTIFICATION OF LANGUAGE CHANGES

The funding available until September 30, 2008 is required for information technology or special analytical efforts and therefore may require a longer lead-time to execute. This allows the projects to be executed in a single appropriation regardless of lead-time for acquisition.

The funding available until September 30, 2007, reflects the amount requested for Regulatory Support Programs, including MSB. The funding level was adjusted for inflation. This approach in essence establishes a separate appropriation for the Regulatory Support Programs, including MSB funding, which will be implemented through inter-government contract support with IRS and other contractual partners. It also funds outreach and other activities to industries newly regulated under the Bank Secrecy Act.

SECTION 2 - THE PERFORMANCE BUDGET
SECTION 2A – PERFORMANCE BUDGET OVERVIEW

SUMMARY OF TOTAL PROGRAM OPERATING LEVEL BY TREASURY GOAL AND OBJECTIVE (Table 2.1)			
(Dollars in Thousands)			
TREASURY GOAL/OBJECTIVE	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
TREASURY GOAL: Preserve the integrity of financial systems (F3)			
Appropriated Budget Obligations	\$56,979	\$71,922	\$73,630
Appropriated Full-time Equivalents (FTE)	249	309	330
Reimbursable Budget Obligations	\$3,341	\$1,541	\$1,541
Reimbursable Full-time Equivalents (FTE)	1	0	0
Total Budget Obligations	\$60,320	\$73,463	\$75,171
Total Full-time Equivalents (FTE)	250	309	330
<i>Objective: Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals (F3A)</i>			
Appropriated Budget Obligations	\$56,979	\$71,922	\$73,630
Direct Full-time Equivalents	249	309	330
Reimbursable Budget Obligations	\$3,341	\$1,541	\$1,541
Reimbursable Full-time Equivalents	1	0	0
<i>Total Budget Obligations</i>	<i>\$60,320</i>	<i>\$73,463</i>	<i>\$75,171</i>
<i>Total Full-time Equivalents</i>	<i>250</i>	<i>309</i>	<i>330</i>

Note: The FY 2004 Actuals include lapsing unobligated balances.

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ANALYSIS OF FY 2005 APPROPRIATED LEVEL (Table 2.2)

	FTE	Amount (\$000)
FY 2005 President's Budget.....	291	\$64,502
Adjustments	18	7,420
FY 2005 Estimate.....	309	71,922

DIGEST OF FY 2006 BUDGET ESTIMATES BY ACTIVITY (Table 2.3)

(Dollars in Thousands)

BUDGET ACTIVITY	FY 2004 Actual		FY 2005 Budget Estimate		FY 2006 Budget Estimate		INCREASE (+) OR DECREASE (-) FOR FY 2006					
	FTE AMOUNT		FTE AMOUNT		FTE AMOUNT		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources (all sources)												
1. BSA Administration and Analysis	277	\$49,127	309	\$63,635	330	\$65,109	21	\$1,474	29	\$6,148	(8)	(\$4,674)
2. Regulatory Support Programs including Money Services Business	0	8,104	0	8,287	0	8,521	0	234	0	0	0	234
Total, Appropriated Resources	277	\$57,231	309	\$71,922	330	\$73,630	21	\$1,708	29	\$6,184	(8)	(\$4,440)
Adjustments (+/-):												
Unobligated balance lapsing	(28)	(252)										
Offsetting Collections - Reimbursable 1/	1	3,341		1,541		1,541	0	0	0	0		0
Subtotal, Adjustments	(27)	\$3,089	0	\$1,541	0	\$1,541	0	0	0	0	0	0
Appropriated Program Operating Level												
1. BSA Administration and Analysis	250	\$52,216	309	\$65,176	330	\$66,650	21	\$1,474	29	\$6,148	(8)	(\$4,674)
2. Regulatory Support Programs including Money Services Business	0	8,104	0	8,287	0	8,521	0	234	0	0	0	234
Total, Appropriated Program Operating Level	250	\$60,320	309	\$73,463	330	\$75,171	21	\$1,708	29	\$6,148	(8)	(\$4,440)

1/ Detail of reimbursements/user fees collected is presented in the Budget Activities section of this request.

SECTION 2B – EXPLANATION OF FY 2006 BUDGET INCREASES AND DECREASES

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY ACTIVITY (Table 2.6) (ALL INITIATIVES ARE LISTED IN ORDER OF PRIORITY) (Dollars in Thousands)					
Requested Changes	BSA Administration and Analysis		Regulatory Support Programs, including Money Services Businesses		Total
	FTE	Amount	FTE	Amount	FTE Amount
1. PROGRAM INCREASES:					
a. Enhance Capability to Provide Comprehensive Analysis	16	2,184			16 2,184
b. Enhance Anti-Money Laundering/Terrorist Regulatory Structure	6	1,093			6 1,093
c. Strengthen Overall Analytical Support Services	1	1,383			1 1,383
d. Expansion of International Terrorist Financing Information Exchange	4	790			4 790
e. Enhance Anti-Money Laundering/Terrorist Data Analysis and Filing Environment	2	698			2 698
SUBTOTAL, PROGRAM INCREASES	29	6,148			29 6,148
2. TOTAL ADJUSTMENTS TO BASE:					
b. Non-Recurring Costs – One Time BSA Direct		(5,000)	0	0	0 (5,000)
b. Redirect Analysis Efforts to Higher Priorities	-16	(2,184)	0	0	-16 (2,184)
a. Adjustments Necessary to Maintain Current Levels	0	1,234	0	234	0 1,468
c. Annualization of FY 2005 Initiatives	8	1,276			8 1,276
SUBTOTAL, TOTAL ADJUSTMENTS TO BASE:	-8	(4,674)	0	234	-8 (4,440)
TOTAL CHANGES, BUDGET AUTHORITY	21	1,474	0	234	21 1,708

SUMMARY OF PROGRAM INCREASES AND DECREASES (EXHIBIT 2a)

TOTAL REQUESTED CHANGES.....+\$1,708,000/+21 FTE

1. TOTAL PROGRAM CHANGES.....+\$6,148,000/ +29 FTE

Program Changes – Base Reinvestments

a. Enhance Capability to Provide Comprehensive Analysis.....+\$2,184,000/+16 FTE

As part of the reorganization, FinCEN reviewed its analytical efforts and redirected FTE to strengthen its capacity related to financial analysis of terrorism activities. This included redirecting FTE resources to: (1) provide on-site analysis to the National Terrorism Center, (2) improve overall terrorist investigative analysis - especially SAR analysis, (3) identify targets for possible special measures under the USA Patriot Act Section 311 as primary money laundering concerns, (4) proactively monitor the Bank Secrecy Act data to identify potential compliance deficiencies, and (5) provide collaborative international predictive analysis through joint collaborative projects with the FIUs. These enhanced analytical efforts have already begun in conjunction with the reorganization.

Program Changes - Increases

a. Enhance Anti-money Laundering/Terrorist Regulatory Structure+\$1,093,000/ +6 FTE

FinCEN must improve its outreach to financial institutions newly covered by Bank Secrecy Act Regulations and also strengthen its oversight of Bank Secrecy Act compliance examination activities of the federal regulators. These activities are critical to our ability to assess the level of compliance in the industry and the effectiveness of the examination process. The USA PATRIOT Act greatly expanded regulatory support needs by extending the BSA regulatory framework and anti-money laundering requirements to a vast array of financial industries, from 3 in FY 2001 to over 15 by FY 2006. To meet this additional workload, FinCEN must increase staffing and related resources to provide the necessary support, assistance, and oversight to ensure the appropriate implementation and maintenance of the regulatory regime. Financial institutions are the first line of defense for money laundering and combating the financing of terrorism so it is imperative to provide adequate oversight of their implementation of the regulatory regime. Given the growth in the number of industries covered by the anti-money laundering rules and suspicious activity reporting, sufficient time has passed for the education and outreach phase and a significant increase in enforcement actions is anticipated by FY 2006. An increase in this area was not included in previous budget submissions since there is an expected lag of a couple of years before it is prudent to focus on enforcement actions. As FinCEN begins its enforcement actions for these new industries, the workload demands will also require an additional dedicated legal staff to work with this regulatory enforcement team.

FinCEN will also improve the effectiveness and efficiency of its essential customer service functions, through its Financial Regulatory Help Line, Financial Institutions Hot Line, and Webmaster electronic mail systems, by establishing a full service resource/call center that would provide both the administrative assistance and interpretive guidance to financial institutions subject to the BSA. This will ensure quality and consistency in guidance and support, as well as provide the most efficient deployment of FinCEN resources to these functions.

a. Strengthen Overall Analytical Support Services +\$1,383,000 /+1 FTE

The single most important operational priority for FinCEN is countering terrorism by identifying the techniques and methodologies used for financing terrorists and their operations, as well as industry and regional vulnerabilities to terrorist abuse. FinCEN must continue to add value to the nation's anti-terrorist efforts through our expertise in mining information and providing link analyses that follow the money of criminals and terrorists to uncover its source, show the existence of terrorist networks, identify systemic or geographic weaknesses, and predict trends and patterns. As evidenced by the hearings related to 9/11, intelligence information needs to be better integrated into all efforts to sever the lines of financial support to international terrorists. To accomplish this, FinCEN will need to retool and build the necessary security related support structure to allow full integration of all data sources. FinCEN will need additional funding to upgrade and sustain the clearance for all intelligence research analysts at the top-secret status. This initiative will also include funding to bring additional TSDN terminal, through Treasury's seat contract, to allow the analysts to efficiently integrate data from sensitive sources, both classified and unclassified for their analysis. This new environment will require an upgrade in the overall security support structure, including upgrades to the COOP/Alternate Site, guard service, and overall information, personnel and document security. Finally, FinCEN must invest significant new resources in its most critical asset – FinCEN's employees, to ensure that they have the training and skills necessary to continue this country's war on terrorism, money laundering, and other financial threats to our nation's financial infrastructure.

b. Expansion of International Terrorist Financing Information Exchange +\$ 790,000 / +4 FTE

FinCEN is a charter member of the Egmont Group of Financial Intelligence Units, created in 1994 as an offshoot from the G-7 Financial Action Task Force to facilitate the exchange of financial transaction information on subjects of interest to national law enforcement and judicial authorities. FinCEN believes that it should significantly upgrade its use of the financial intelligence unit network to take advantage of inherent opportunities to rapidly identify account and financial transaction information linked to terrorist subjects and related entities. The Egmont Secure Web housed by FinCEN provides unparalleled opportunities to move time-sensitive information requests rapidly among any or all of the governmental organizations established to receive suspicious or unusual activity reports from financial institutions in each of the 100 plus Egmont participant nations.

FinCEN intends to use its leadership role within Egmont to implement information exchange policies and procedures to systematize terrorism-related financial record checks and analysis throughout the global network. To do so, we will need to upgrade our cadre of country desk officers to decrease the current ratio of countries per desk officer to assure adequate information exchange coverage and coordination with law enforcement; to enhance our international regulatory efforts within international organizations, and to increase staff performing Egmont technical support and training functions by three positions to support expanded use of the secure network.

c. Enhance Anti-money Laundering Data Analysis and BSA E-Filing Environment+\$ 698,000/ +2 FTE

This initiative combines two projects to upgrade the overall regulatory filing environment by improving marketing and outreach for BSA electronic filing system and to enhance FinCEN's analytical tools to improve text retrieval search capabilities. FinCEN has set as an immediate goal increasing the percentage of top filers who e-file through the BSA electronic filing system to 90% over the next 2-5 years. To accomplish this goal, FinCEN will need to reach out to these filers, educate them about this system and the benefits of e-filing, and offer assistance to help them make the transition to e-filing. Currently, only 161 of the top 1,500 filers are enrolled in BSA E-filing. FinCEN's business goal is to encourage the entities that file the greatest number of BSA forms to utilize the system. For example, the first outreach priority would be to the top 1500 filers, which accounted for 91.28% of all filings. This outreach effort is necessary to advance electronic filing since many of the covered institutions already have in place both business processes and systems that support either paper or magnetic filing. As a result, financial institutions are reluctant to invest funding to change their systems to allow electronic filing. These investments in additional outreach will achieve future savings through the reduced collection and processing costs associated with paper filings.

This initiative will also improve our technology tools to enhance our capability for text retrieval, including searching SAR narratives for key words, but these are limited. Essentially, our current technology performs the proverbial haystack search for a person or word already known to be of interest. Technology now exists to extract meaning from unstructured text (such as the SAR narratives) to pre-categorize and aggregate topics of key interest, to use mathematical algorithms to synopsise and infer meaning from the text, and to identify previously undetected patterns and associations among entities and even topics referred to in text. FinCEN plans to leverage the benefits of such text mining in two ways: First, these capabilities will allow FinCEN analysts to identify far more connections in the SAR narratives than are possible with existing tools. The result will be improved analytical products, including industry, U.S. geographic, and country analyses that FinCEN can then provide to its regulatory, international, and law enforcement partners. Second, FinCEN plans to make text-mining tools available to external agencies that access the BSA data through BSA Direct. This will allow other users at the Federal, state, and local level to mine all, or a subset of, SAR narratives for patterns and connections of particular interest to them.

2. TOTAL ADJUSTMENTS TO BASE..... - \$4,440,000/ - 8 FTE

Other changes include adjustments necessary to maintain current levels (MCLs) and any other adjustments that may be required. They are as follows:

a. Non-recurring Costs for BSA Direct..... - \$5,000,000 / 0 FTE

One-time development funding of \$5,000,000 provided in FY 2005 will not recur. This funding was provided for the initial design and development of the BSA Direct data retrieval system. FinCEN's FY 2006 base contains \$2,500,000 to maintain the system.

b. Redirect Analysis Efforts to Higher Priorities -\$2,184,000 /- 16 FTE

FinCEN continually reviews its overall activities and programs to identify opportunities to redirect resources to the highest priorities. As part of the recent reorganization, FinCEN examined its analysis functions and gained efficiencies from consolidating case development, intelligence analysis, and strategic analysis into one division. In addition, efficiencies were realized from consolidating and streamlining some administrative processes related to case processing and networking and decreasing, to some extent, case support efforts related to data checks and data retrieval. This allowed FinCEN to redirect FTE to enhance capabilities to provide comprehensive analysis as described below.

c. Adjustments Necessary to Maintain Current Levels..... +\$1,468,000 / 0 FTE

Funding is required for: the FY 2006 cost of the January 2005 pay increase of \$268,000; the proposed January 2006 pay raise of \$574,000; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of \$626,000.

d. Annualization of FY 2005 Initiatives\$+1,276,000 /+8 FTE

Additional funding is required to annualize the staffing initiative approved in FY 2005. FinCEN will continue to develop an expert cadre in support of expanded anti-money laundering programs and suspicious activity reporting requirements to additional industries. By the end of FY 2005, anti-money laundering programs will be required for mutual funds, operators of credit card systems, life insurance companies, unregistered investment companies, and the precious metal, stones, and jewelry industries. Further, by 2005, FinCEN will expand Suspicious Activity Reporting (SAR) requirements to additional segments of the financial services industry and segments of the insurance industry. These additional resources will also support FinCEN's efforts to enhance the overall quality of its customer support efforts. In addition, this provides funding for two FTE to expand customer support to users accessing BSA data directly through FinCEN's Gateway process. This will allow FinCEN to provide two coordinators in each of the six geographic regions to support training and overall customer interface. These enhancements are scheduled to complement the overall modernization of the data retrieval aspects of the system through BSA Direct and will allow FinCEN to establish a process to support its future client base in a cost effective manner.

SECTION – 3 EXPLANATION OF PERFORMANCE AND RESOURCES BY BUDGET ACTIVITY

In the first quarter of FY 2005, Treasury launched a process to streamline its current set of performance measures. Its purpose was to increase the value of the information provided to our stakeholders, respond to congressional requests, focus our priorities, and reduce administrative burden. Results of the process indicated a 60-70% reduction in the number of performance measures overall at the Treasury level. At the bureau level, measures that are no longer included in the budget submission are classified as "discontinued", and are indicated as such. The end result will be apparent in next year's performance report and budget submission, in the form of a more concise explanation of program performance relative to prior years.

FinCEN's FY 2005 performance budget is presented programmatically to align resources with performance. FinCEN has one program, Combat Financial Aspects of Criminal Activity, with two major budget activities: 1) BSA Administration and Analysis, and 2) Regulatory Support Programs, including Money Services Businesses. For each activity, budget and performance information are provided to explain historical trends and performance challenges and expectations.

Narrative Summary of Program Resources and Performance (Exhibit 3a)

BUDGET ACTIVITY 1: BSA ADMINISTRATION AND ANALYSIS

This activity comprises FinCEN's efforts to administer the BSA, such as promulgating regulations, providing outreach and guidance to the regulated industries, initiating regulatory enforcement actions, and, with the IRS, managing the information filed by the regulated industries. Internationally, FinCEN promotes the development of anti-money laundering regimes through training and technical assistance. This activity also incorporates FinCEN's efforts to support law enforcement, such as providing investigative case research, facilitating the exchange investigative information with foreign jurisdictions, and identifying foreign and domestic money laundering and terrorist financing trends, patterns, and techniques.

Financial Crimes Enforcement Network

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (Table 3.1) (Dollars in Thousands)							
Treasury Goal: Preserve the Integrity of Financial Systems (F3)							
BA 1: BSA Administration and Analysis	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Total Operating Level (direct and reimbursable)	\$36,082	\$43,327	\$47,223	\$52,468	\$52,468	\$65,176	\$66,650
Total FTE	217	243	230	278	250	309	330
Direct Resources [<i>Salaries and Expense Account</i>]	\$35,283	\$39,747	\$42,926	\$49,127	\$49,127	\$63,635	\$65,109
Direct FTE	212	238	229	277	249	309	330
Offsetting Collections [<i>reimbursable</i>]	\$799	\$3,580	\$4,297	\$3,341	\$3,341	\$1,541	\$1,541
Reimbursable FTE	5	5	1	1	1	0	0
1. Number of vulnerable industries covered by anti-money laundering regulations (Oe)	5 ¹	10 ¹	10 ¹	15 ¹	10	15	17
2. Average time to process matters in which civil enforcement remedies may be appropriate (Wording changed from "Average time to process a civil penalty case" to more accurately reflect the components being measured) (E)	1.8 years	1.5 years	1.3 years	1.2 years	1.0 years	1.1 years	1.0 years
3. Number of users directly accessing BSA data through FinCEN's web based system (Oe)	582	898	1,105	1,700	2,181	3,000	4,000
4. Percentage of customers finding FinCEN's analytic support valuable (this performance measure, starting in FY 2005, combines data from surveys on strategic analytical products, investigative case reports, and investigative targets) (Oe)	N/A	N/A	N/A	N/A	N/A	Establish Target	TBD
Percentage of customers (financial institutions) satisfied with FinCEN's regulatory guidance (M)	N/A	79%	77%	N/A	N/A	Discontinued	Discontinued
Share of BSA filings submitted electronically (Oe)	N/A	N/A	6% ²	20%	20%	Discontinued	Discontinued
Percentage of FinCEN's customers rating its investigative case reports as valuable ³ (Oe)	N/A	N/A	71%	N/A	N/A	Discontinued	Discontinued
Percentage of FinCEN's customers rating its investigative targets as valuable ³ (Oe)	N/A	N/A	N/A	N/A	N/A	Discontinued	Discontinued
Percentage of FinCEN's customers rating its strategic analytical products as valuable ³ (Oe)	N/A	N/A	N/A	Baseline	Deferred	Discontinued	Discontinued
Number of strategic analytic products (Ot)	53	69	79	80	56	Discontinued	Discontinued
Number of subjects in completed investigative analytical reports (Ot)	34,307	30,840	30,420	30,000	19,158	Discontinued	Discontinued
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M-Management/Customer Satisfaction Measure							
¹ The definition changed to include two additional industries.							
² The FY 2003 results were changed from 4% to 6% due to a change in the calculation method (i.e., using the two most recent months of the fiscal year).							
³ These measures tracking the value of analytical support are being combined into one value tracking measure (see measure number 4). The surveys are planned for FY 2005 and a baseline will be established by close of FY 2005.							

Summary of Reimbursable Resources - BA 1: BSA Administration and Analysis (Table 3.2)
(Dollars in \$000)

Program/Client - Description of Services	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Department of State - FIU assistance	\$375	1	\$487	-	\$487	-
Internal Revenue Service –Maintenance of Electronic Filing System	\$1,000	-	\$1,000	-	\$1,000	-
Treasury Forfeiture Fund - BSA Direct	\$1,912	-	0	-	0	-
U.S. Secret Service – Case Research Services	\$54	-	\$54	-	\$54	-
Total	\$3,341	1	\$1,541	-	\$1,541	-

BUDGET ACTIVITY 1: BSA Administration and Analysis

EVALUATION OF FY 2005 PERFORMANCE PLAN – EXHIBIT 3B

REGULATORY

- Finalize pending Bank Secrecy Act regulations that (1) require investment advisers, commodity trading advisors, insurance companies, unregistered investment companies, and dealers in precious metals, stones or jewels to establish anti-money laundering programs; (2) require the filing of Suspicious Activity Reports by insurance companies and mutual funds; and (3) implement Section 312 of the USA PATRIOT Act, a provision directing special due diligence for correspondent accounts and private banking accounts.
- Finalize Memoranda of Understanding with the Commodities Futures Trading Commission, the Internal Revenue Service, and the Securities Exchange Commission to routinely exchange information about Bank Secrecy Act examination activities, including the identification of financial institutions with significant Bank Secrecy Act compliance deficiencies.
- Negotiate Memoranda of Understanding with the various state supervisory agencies that examine for compliance with the Bank Secrecy Act or similar state regulations.
- Issue proposed regulations that would require loan or finance companies to establish an anti-money laundering program, and determine whether it is appropriate to issue proposed regulations that would require persons involved in real estate closings and settlements, businesses engaged in vehicle sales, and travel agencies to establish such programs.

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- Issue a redesigned, simplified Suspicious Activity Report form for money services businesses to provide better data for analytic and law enforcement purposes, while reducing the preparation burden for money services businesses and lowering the processing costs for the government.
- Enhance processes for identifying financial institutions with Bank Secrecy Act compliance issues, such as chronic errors in Suspicious Activity Reports, and taking appropriate action, either alone or in conjunction with the Federal agency with authority over the financial institution.
- Continue to enforce the Bank Secrecy Act through the assessment of civil remedies where appropriate, including the assessment of civil money penalties cases involving willful violations of the Bank Secrecy Act, and working to close enforcement case matters more expeditiously.
- Develop a system for securely managing the information flow resulting from the Memorandum of Understanding with Federal banking regulators and state supervisory agencies, and develop initial reports on financial industry compliance based on the information provided.
- Enhance the quality of Suspicious Activity Report data by emphasizing their importance in training seminars and presentations to the regulated industries, and monitoring filed Suspicious Activity Reports to minimize the occurrence of blank or incomplete data fields.

GLOBAL

- Host the 13th Egmont Plenary in Washington in June 2005. At this meeting, Egmont membership is expected to grow to more than 100 financial intelligence units.
- Begin efforts to enhance international liaison with financial intelligence units around the world by participating in numerous international groups that adopt and evaluate implementing measures to combat money laundering and terrorist financing.
- Participate in two newly created FATF style regional bodies, the Middle East and North Africa FATF and the Eurasia FATF.
- Continue to provide training and technical support to enhance and establish financial intelligence units in various regions throughout the world. In 2005 priorities will center on South and South East Asia, the Middle East, and North Africa.
- Connect to the Egmont Secure Web (ESW) all of the Egmont members approved for membership in FY 2003, 84 to 100 Egmont members and conduct a baseline customer satisfaction survey of Egmont members on the ESW.

DATA COLLECTION AND SHARING

- Continue to increase e-filing of BSA forms. Anticipate that at least 40% of all BSA filings will be through PACS. The current FY 2004 level is 20%.
- Provide additional log-on processes tailored to various user segments.
- Expand the number of financial institutions filing through FinCEN's web-based technology from 450 to 1,000.
- Pilot test and revise initial phases of *BSA Direct*, followed by full production roll out.
- Roll out Gateway/*BSA Direct* online training and testing modules.

Financial Crimes Enforcement Network

- Increase number of customers accessing BSA directly by 38% from 2,181 to 3,000.
- Increase the percentage of information sharing requests 314 (a) that result in positive identification.
- Continue development for the Gateway program to support user processes. These information technology tools will include: on-line training modules for Gateway users, a web-based database to distribute password applications, automation of aspects of the network process, and applications to identify anomalies including inspection activity through audit records in conjunction with on site inspections.
- Anticipate sending out over 200 information sharing requests from law enforcement and receiving over 10,000 responses from financial institutions.
- Begin surveying these financial institutions to determine whether their fax-based technology has advanced enough to allow access to the web-based site. Currently, about 10 percent of 26,000 financial institutions lack the technology needed to receive e-mail information requests.

ANALYSIS

- Improve our abilities to use our data and technology to inform the financial industry of financial transaction activity indicative of possible terrorist funding and financing. Financial institutions have advised us that this is their most pressing need in identifying and reporting terrorism-related activity at the earliest possible stage.
- Upgrade the investigative support records to include analysis of the data through multiple sources for both domestic and foreign customers.
- Continue to identify and develop targets for PATRIOT Act Section 311, with a goal of increasing the number of target packages initiated by FinCEN in FY 2005
- Expand analytic interaction with the Egmont Group. We plan to engage in joint analytic initiatives with other financial intelligence units interested in undertaking collaborative analytic products that fuse data, especially suspicious or unusual transaction reporting, to identify investigative lead information on global criminal networks and to develop typologies of international money laundering and terrorist financing methodologies.
- Conduct proactive analyses that identify trends and patterns in terrorist financing and money laundering, and prepare vulnerability assessments to identify areas susceptible to financial crime, including several joint collaborative efforts with international counterparts.
- Develop a national Money Laundering Threat Assessment incorporating Bank Secrecy Act data, especially Suspicious Activity Reports, which will track money laundering threats over large geographic areas, identify changing money laundering methodologies over time, and assist law enforcement and other end users in applying resources to areas of greatest threat.
- Develop and implement a strategy for assisting law enforcement agencies now requesting baseline database research from FinCEN to more efficiently make those queries themselves. This is necessary in order to reallocate our analytic resources to more complex work on terrorist financing and complex money laundering investigative support.

MANAGEMENT PRIORITIES

- Publish an updated strategic plan that reflects the shifts in emphasis and priorities that occurred during FY 2004.
- Develop and implement a new performance recognition system to complement the new five-tier employee performance system.
- Design a comprehensive training strategy for FinCEN managers in support of succession planning.
- Attract, develop, and retain a high-performing, diverse workforce through implementation of a new recruitment program, adopting recruitment and hiring flexibilities, and using effective performance management and individual development plans.
- Conduct an employee satisfaction (organization climate) survey and develop recommendations to improve the organization.
- Conduct at least one customer satisfaction survey in FY 2005.
- Complete the Office of Management and Budget's Program Assessment Rating Tool (PART) process for one of FinCEN's program.

Financial Crimes Enforcement Network

- Evaluate the efficiency and effectiveness of new administrative processes adopted in FY 2004 as FinCEN fully implements Bureau administrative authorities.
- Complete the To-Be phase of the enterprise architecture and begin planning for key enterprise architecture changes.
- Begin to enhance analytical training for employees to provide at least three development courses per year to move from 41% to 75% employee participation in FY 2006.
- Begin the process to upgrade all analysts to top-secret security level and all on-site contractors to secret level.

FY 2006 PERFORMANCE PLAN - EXHIBIT 3C

REGULATORY

- Continue efforts to provide outreach to industries covered by Bank Secrecy Act requirements, proposed to be approximately 17 industry groups by FY 2006.
- Expand outreach SAR reporting to covered industry groups, proposed to be around 12 by FY 2006.
- Undertake an initiative to educate the MSBs and newly regulated industries most vulnerable to terrorist abuse of their financial services. Working with our colleagues in law enforcement, we will develop training programs to educate industry on how terrorists have and may continue to use MSBs and newly regulated industries; the importance of the MSB registration and the AML compliance program; and reporting and record keeping requirements of the BSA, especially suspicious activity reporting.
- Continue attempts to reduce the number of omissions in SAR filings through increased outreach and education, monitoring and outreach to filers with systemic quality issues, expanding efforts to move toward electronic filing, and improvements and uniformity in Suspicious Activity Reporting instructions.
- Implement recommendations from the private-public partnership to identify workable mechanisms to achieve the desired reduction in Currency Transaction Reports.
- Expand the call center, with regulatory support specialists dedicated exclusively to responding to industry inquiries about BSA requirements. This is necessary to handle the increasing volume of regulatory inquiries as new industries are brought under the BSA reporting umbrella.
- Expand analysis of the BSA data for filing anomalies, such as non-filing for prolonged periods or changes in filing activity, and refer anomalies to the regulators to be used to enhance the regulator's compliance examination
- Explore the feasibility of the establishment of a unified measure for measuring BSA compliance with federal regulators.

GLOBAL

- Continue to promote, develop, and strengthen the international network of financial intelligence units (FIUs), known as the Egmont Group, by providing technical assistance and training. FinCEN estimates that the number of Egmont Group FIUs will increase to approximately 105 by FY 2006.

Financial Crimes Enforcement Network

- Participate in numerous international forums where adopting and evaluating implementing measures to combat money laundering and terrorist financing dominate the agendas (FATF and FATF-style regional bodies).
- Expand capability to provide FIUs with technical assistance and training to a target of 28 per year.
- Increase the number of FIU assistance visits to provide IT assessments over FY 2005 by two fold.
- Work cooperatively with FIUs to strengthen and share information on IT issues, such as product assessment to aid in standard setting among the FIUs.

DATA COLLECTION AND SHARING

- Increase the percent of financial institutions filing through BSA electronic filing from 20% in FY 2004 to over 60% in FY 2006.
- Transition to Operations and Maintenance phase of BSA Direct data retrieval system.
- Implement tracking and feedback mechanism for all BSA data downloaded by agencies.
- Enhance analytical tools, particularly in the area of text mining.
- Continue to develop Memorandums of Understanding with agencies seeking to use the Gateway process.
- Increase the percentage of information sharing requests 314 (a) that result in positive identification.
- Anticipate sending out over 200 information sharing requests from law enforcement and receiving over 10,000 responses from the financial institutions.
- Survey the users of the new web based system to determine satisfaction levels and areas that need improvement.

ANALYSIS

- Continue to identify and develop targets for USA PATRIOT Act Section 311.
- Continue to focus on the proactive development of possible terrorist financing cases for referral to both domestic and foreign law enforcement.
- Conduct predictive analyses that identify trends and patterns in terrorist financing and money laundering, and prepare vulnerability assessments to identify areas susceptible to financial crime, including four joint collaborative efforts with international counterparts.
- Improve our abilities to use our data and technology to inform the financial industry of financial transaction activity indicative of possible terrorist funding and financing to meet the financial institutions need for information to assist in identifying and reporting terrorism-related activity at the earliest possible stage.
- Expand analytic interaction with the Egmont Group through joint analytic initiatives with other financial intelligence units interested in undertaking collaborative analytic products that fuse data, especially suspicious or unusual transaction reporting, to identify investigative lead information on global criminal networks and to develop typologies of international money laundering and terrorist financing methodologies.

Financial Crimes Enforcement Network

- Conduct proactive analyses that identify trends and patterns in terrorist financing and money laundering, and prepare vulnerability assessments to identify areas susceptible to financial crime, including several joint collaborative efforts with international counterparts.
- Update and enhance the national money laundering threat assessment incorporating new information from the Bank Secrecy Act data, especially Suspicious Activity Reports to continually track money laundering threats over large geographic areas, identify changing money laundering methodologies over time, and assist law enforcement and other end users in applying resources to areas of greatest threat.
- Continue efforts to evaluate and re-deploy analytical assets to more complex money laundering investigative support as law enforcement utilizes BSA Direct for their baseline database research.

MANAGEMENT PRIORITIES

- Evaluate the implementation of the new performance recognition system, providing enhanced training as necessary.
- Conduct at least one customer satisfaction survey.
- Increase the overall percent of intelligence analysts' participation in 3 analytical courses from 41% to over 75.
- Continue to evaluate FinCEN's remaining programs and take action to correct any area indicating weak performance from the FY 2007 PART analysis and use PART recommendations for making budget decisions.
- Complete the actions required to upgrade all analysts to top-secret security level.
- Enhance the COOP/Alternate Site capabilities to ensure that capabilities are current and operational ready.
- Begin the installation of additional TSDN terminals to allow more integration of all data sources. Implement additional security measures and review processes to allow operation in the higher security environment.
- Continue to evaluate administrative processes and systems and implement improvements identified.

Narrative Summary of Program Resources and Performance (Exhibit 3a)**BUDGET ACTIVITY 2: REGULATORY SUPPORT PROGRAMS INCLUDING MONEY SERVICES BUSINESSES**

This activity supports requirements to strengthen anti-money laundering controls with the money services businesses industry, casino, broker/dealer, securities, and other industries with new program or reporting requirements under the Bank Secrecy Act (BSA). FinCEN will also continue efforts with the IRS, especially related to the money services businesses industry, to assure compliance, respond to public inquiries, distribute forms and publications, and support information processing of the BSA data.

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (Table 3.1) (Dollars in Thousands)							
Treasury Goal: Preserve the Integrity of Financial Systems (F3)							
BA 2: Regulatory Support Programs including Money Services Businesses	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Total Operating Level (direct and reimbursable)	\$2,270	\$7,790	\$8,284	\$8,104	\$8,104	\$8,287	\$8,521
Total FTE (direct)	0	0	0	0	0	0	0
Direct Resources [<i>Salaries and Expense Account</i>]	\$2,270	\$7,790	\$8,284	\$8,104	\$8,104	\$8,287	\$8,521
Direct FTE	0	0	0	0	0	0	0
Offsetting Collections [<i>reimbursable</i>]	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reimbursable FTE	0	0	0	0	0	0	0
Treasury Objective: Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals (F3A)							
Direct Resources [<i>Salaries and Expense Account</i>]	\$2,270	\$7,790	\$8,284	\$8,104	\$8,104	\$8,287	\$8,521
Direct FTE	0	0	0	0	0	0	0
Offsetting Collections [<i>reimbursable</i>]	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reimbursable FTE	0	0	0	0	0	0	0
Performance Goal: Support efforts to eliminate safe havens for money laundering and terrorist financing worldwide.							
1. Number of money services businesses registered	N/A**	11,253	N/A**	16,142	19,943	Discontinued	Discontinued

BUDGET ACTIVITY 2: REGULATORY SUPPORT PROGRAMS INCLUDING MONEY SERVICES BUSINESSES

EVALUATION OF FY 2005 PERFORMANCE PLAN - Exhibit 3b

REGULATORY

- Continue efforts with the IRS, to assure compliance with the Bank Secrecy Act; provide education and guidance through outreach; respond to public inquiries; distribute forms and publications; and provide support in processing MSB related BSA data.
- Provide funding for 20% of the funding used by IRS Small Business/Self Employed Division (SB/SE) to perform delegated Title 31 examination functions over financial institutions not regulated by a federal functional regulator, such MSBs.
- Provide training support, guidance and expertise to the IRS SB/SE in performing risk-based compliance examinations of the MSB Industry to assure compliance with the AML program, registration, record keeping and reporting requirements of the BSA.
- Expect an increase in the number of overall MSBs and newly regulated financial institutions examined by the IRS for compliance and an increase in the number of compliance and enforcement referrals.
- Develop contractual contracts to enhance regulatory outreach to new industries and strengthen a number of information technology systems investing at least \$2,100,000 of unexpended prior year funding to enhance regulatory outreach to new industries and strengthen a number of information technology systems. Specifically, these one-time investments include studies of industries that are newly covered by anti-money laundering requirements, developing systems to support a centralized BSA regulatory assistance call center, enhancing the BSA electronic filing system, and upgrading the Egmont Secure Web.

FY 2006 PERFORMANCE PLAN - Exhibit 3c

REGULATORY

- Continue efforts with the IRS, to assure compliance with the Bank Secrecy Act; provide education and guidance through outreach; respond to public inquiries; distribute forms and publications; and provide support in processing the MSB related BSA data.
- Continue oversight and outreach activities to ensure compliance with national Money Services Businesses (MSB) registration and other BSA requirements.
- Provide funding for 20% of the funding used by IRS Small Business/Self Employed Division (SB/SE) to perform their Title 31 regulatory functions related to oversight of the MSB Industry.
- Expect an increase in the number of overall MSBs and newly regulated financial institutions examined by the IRS for compliance and an increase in the number of enforcement referrals.

SECTION – 4 SUPPORTING MATERIAL

MANAGEMENT CHALLENGES AND HIGH-RISK AREAS - Exhibit 4a

Issue: Anti-Money Laundering/Bank Secrecy Act Enforcement

The OIG believes the Bank Secrecy Act enforcement efforts need to ensure that banks, thrifts, and other financial institutions improve the accuracy and timeliness of their reports. The OIG also believes that the supervisory agencies need to devote additional examination attention to this critical law enforcement effort.

Relevant Performance Objectives: FinCEN has developed an action plan to emphasize the importance of quality Suspicious Activity Reports (SARs)

Actions Planned or Underway: FinCEN will identify financial institutions with apparent systemic suspicious activity report quality problems through the quarterly review of electronic reports identifying blank fields and possible duplicate reports. In addition, FinCEN will enhance its outreach and education to financial institutions to improve the accuracy of the reported information. FinCEN will also expand outreach to industry focused on decreasing the number of paper and magnetic media filings (which are vulnerable to filing error) and substantially increasing electronic filings.

PROGRAM ASSESSMENT RATING TOOL REPORT - Exhibit 4b

In conjunction with the FY 2007 Budget process, FinCEN will PART the BSA Data Collection and Sharing program. The remainder of the programs will be assessed in conjunction with the FY 2008 Budget process.

CROSSCUTTING COORDINATION EFFORTS-Exhibit 4c

Regulatory

FinCEN coordinates with a number of public and private sector groups on crosscutting efforts. On the domestic side, an important vehicle for coordinating crosscutting efforts is the BSA Advisory Group (BSAAG), a Treasury-sponsored group, composed of representatives from the institutions subject to the BSA, such as banks, broker-dealers, and MSBs, as well as state and federal law enforcement and financial regulators, chaired by the Director of FinCEN. FinCEN chairs a subcommittee of the BSAAG which among other things, works to identify workable mechanisms, in partnership with the regulated industry, to achieve the desired reduction in CTR filings.

Another federal group in which FinCEN participates is the SAR Owners' Group (OG). FinCEN executives meet periodically with officials from the five federal regulatory agencies to discuss issues with the Suspicious Activity Report. For example, FinCEN is preparing to vet proposed changes to the SAR-Depository Institutions (SAR-DI) form through the OG, seeking their concurrence on changes FinCEN is recommending. The system is working well. FinCEN met with the OG to discuss proposed SAR-DI processing changes that should improve the quality of SAR data. The SAR Owners' Group agreed with our proposals.

FinCEN depends on a wide array of Federal agencies (i.e., the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Securities and Exchange Commission, and the Internal Revenue Service) to examine for compliance with the Bank Secrecy Act regulations. For example, FinCEN funds IRS for 70 FTE to examine money services businesses (MSBs) for BSA compliance, and to educate the MSB industry on the anti-money laundering program, record keeping, and reporting requirements of the BSA. FinCEN participates in the IRS anti-money laundering training for the examiners, and provides guidance to IRS for examination priorities. IRS refers egregious violations of the BSA within the MSB industry for penalty consideration.

FinCEN is responsible for bringing civil enforcement actions against financial institutions that violate the Bank Secrecy Act. FinCEN will also strengthen its oversight of Bank Secrecy Act compliance by the financial services industry through an expanded partnership with the Federal Regulators. FinCEN will collect additional compliance-related information from those federal regulators to enable FinCEN to assess the overall level and quality of Bank Secrecy Act compliance by the financial services industry, to identify common compliance deficiencies, and to develop examiner training and examination best practices.

FinCEN also works with the IRS on administrative issues related to the blank BSA forms. IRS prints, stores, and distributes all blank BSA forms without cost to FinCEN.

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Global

FinCEN provides training and technical assistance to those foreign jurisdictions, prioritized by U.S. agencies as critical in the fight against terrorism and terrorist financing, that are Egmont members or candidates, or designated by the Financial Action Task Force (FATF) as non-cooperative in the international fight against money laundering or as priority countries for compliance assessment with the 'Eight Special Recommendations' on terrorist financing and the relevant United Nations Security Council Resolutions. FinCEN works within Egmont to assist the efforts of FATF, the International Monetary Fund and the World Bank in the formulation and implementation of a framework for assessing compliance with international standards as well as coordinating training and technical assistance in the development and strengthening of FIUs. In addition, FinCEN supports the globalization of anti-money laundering activities through the efforts of FATF-style regional bodies by assisting and participating in these bodies.

Data Collection and Sharing

FinCEN depends upon IRS' Detroit Computing Center to collect and process over 13 million BSA reports filed each year by more than 200,000 U.S. financial institutions. IRS procedures to collect and process the BSA data include: (1) keying the data on paper forms or up-loading the information from electronic/magnetic filing into the database, and ensuring quality control; (2) providing all necessary information technology support, such as design and maintenance of all the BSA databases; and (3) interacting with industry filers on questions, incomplete forms, and back-filing determinations.

Another example of FinCEN's cooperative efforts with the private and public sector involves the Information Sharing program authorized by the USA PATRIOT Act, which has allowed the government to enhance and accelerate information sharing among law enforcement and financial institutions regarding potential terrorist financing and money laundering schemes. With the assistance of private financial institutions, this program provided nearly 11,006 financial institutions responses to law enforcement's request for financial locator information in 2004. With this type of success rate in the first year of operation, it is clear that this program provides law enforcement a means for obtaining financial locator information more quickly from the financial institutions.

Analysis

As part of an overall cooperative effort among law enforcement agencies, FinCEN's provides case support to the federal, state, and local level and their international counterparts by preparing reports based on data collected under the BSA, supplemented by other commercial and law enforcement databases. Using these databases, FinCEN analysts add value to the information collected under the BSA by uncovering leads and hidden pieces of the puzzles by linking together business associates, bank accounts, property records, and other information to assist law enforcement in conducting more complete financial investigations.

FinCEN also supports the FBI's Terrorist Financial Operations Section, the Department of Homeland Security, and the Terrorist Threat Integration Center.

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The purpose of FinCEN's strategic analysis products is to share trend and pattern information with law enforcement, the regulatory agencies and the regulated financial industries. In particular, the SAR Activity Review, Trends, Tips and Issues is a product of continuing dialog and close collaboration among the nation's financial institutions, law enforcement officials, and regulatory agencies to provide meaningful information about the preparation, use, and value of suspicious activity reports (SARs) filed by financial institutions. Other publications that have been produced with the cooperation of law enforcement include the FinCEN Advisory on informal value transfer systems and the SAR Bulletin on Suspicious Activities Related to Phone Card Businesses.

DETAIL OF FULL-TIME EQUIVALENT POSITIONS BY CATEGORY (Table 4.1)

Position Category	Actual FY 2004	Estimated		Changes
		FY 2005	FY 2006	
Statutory executive positions	6	6	6	-
Policy/program professional staff.....	204	264	285	21
Administrative staff.....	27	27	27	-
Secretarial and clerical.....	7	7	7	-
Crafts and custodial.....	-	-	-	-
Subtotal.....	244	304	325	21
Part-time & temporary full-time equivalent positions.....	5	5	5	-
Total full-time equivalent positions	249	309	330	21

DETAIL OF FULL-TIME EQUIVALENT STAFF YEARS BY GRADE (Table 4.2)

Grade	FY 2004 Actual	FY 2005 Estimated Operating Level	FY 2006 Budget Estimate	Changes
Executive Level 1.....	-	-	-	-
Executive Level 2.....	-	-	-	-
Executive Level 3.....	-	-	-	-
Executive Level 4.....	-	-	-	-
Executive Level 5.....	-	-	-	-
Subtotal.....	-	-	-	-
Senior Executive Service Pay Band	6	6	6	-
Subtotal.....	6	6	6	-
GS-18.....	-	-	-	-
GS-17.....	-	-	-	-
GS-16.....	-	-	-	-
GS-15.....	39	38	38	-
GS-14.....	69	80	81	1
GS-13.....	60	87	104	17
GS-12.....	23	37	39	2
GS-11.....	21	17	18	1
GS-10.....	1	1	1	-
GS-09.....	17	29	29	0
GS-08.....	5	8	8	-
GS-07.....	5	5	5	0
GS-06.....	2	1	1	-
GS-05.....	1	-	-	-
GS-04.....	-	-	-	-
GS-03.....	-	-	-	-
GS-02.....	-	-	-	-
GS-01.....	-	-	-	-
Subtotal.....	243	303	324	21
Other.....	-	-	-	-
Total full-time equivalent positions	249	309	330	21

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EXPLANATION OF PROPOSED FY 2005 BUDGET OPERATING BUDGET (Table 4.3)
(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget as Amended		+ or - Congressional Action		FY 2005 Enacted Level		Effect of Transfers, Prop. Supp./ Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	22,385	291	1,774	18	24,159	309			24,159	309
11.1 Other than Full-Time Permanent Positions.....	284				284				284	
11.5 Other Personnel Compensation.....	526				526				526	
11.8 Special Personal Services Payments.....	-				-				-	
11.9 Personnel Compensation (Total).....	23,195	291	1,774	18	24,969	309	-	-	24,969	309
12.0 Personnel Benefits.....	5,561		501		6,062				6,062	
13.0 Ben. Former Personnel.....	0				-				-	
21.0 Travel.....	823		88		911				911	
22.0 Transportation of Things.....	0				-				-	
23.1 Rental Paym'ts to GSA.....	4,167				4,167		-		4,167	
23.2 Rent Paym'ts to Others.....	43				43				43	
23.3 Commun., Util., & Misc.....	650		1		651				651	
24.0 Printing and Reprod.....	250				250				250	
25.1 Advisory & Assistance Services.....	180				180				180	
25.2 Other Services.....	10,679		5,239		15,918		-513		15,405	
25.3 Purchase of Goods/Serv. from Govt. Accts...	8,823				8,823		-67		8,756	
25.4 Operation & Maintenance of Facilities.....	1250		94		1,344				1,344	
25.5 Research & Development Contracts.....	-				-				-	
25.6 Medical Care.....	100		8		108				108	
25.7 Operation & Maintenance of Equipment.....	5,800		66		5,866				5,866	
25.8 Subsistence & Support of Persons.....	-				-				-	
26.0 Supplies and Materials.....	325		9		334				334	
31.0 Equipment.....	2,656		220		2,876				2,876	
TOTAL BUDGET AUTHORITY	64,502	291	8,000	18	72,502	309	-580	-	71,922	309
<u>ACTIVITIES</u>	-									
1. BSA Administration and Analysis	56,148	291	8,000	18	64,148	309	-513		63,635	309
2. Regulatory Support Programs including Money Services Businesses	8,354	-			8,354	-	-67		8,287	-
TOTAL BUDGET AUTHORITY	64,502	291	8,000	18	72,502	309	-580	-	71,922	309

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Explanation of FY 2005 Congressional Action – Exhibit 4e

In the Consolidated Appropriations Act, FY 2005, Congress provided FinCEN an additional \$5,000,000 in support of BSA Direct and \$3,000,000 in support of FinCEN's Office of Compliance. There was also a rescission of \$580,000, providing an appropriation of \$71,922,000.

STANDARD OBJECT CLASSIFICATION SCHEDULE - Direct Obligations (Table 4.4)

(Dollars in Thousands)

Object Class Object Classification	FY 2004 Actual	FY 2005 Proposed Operating Level	FY 2006 Budget Estimate	Increases/ Decreases for FY 2006
Personnel compensation:				
Permanent positions.....	20,539	24,159	26,720	2,561
Positions other than permanent.....	284	284	284	-
Other personnel compensation.....	526	526	526	-
Total personnel compensation.....	21,349	24,969	27,530	2,561
Civilian personnel benefits.....	4,947	6,062	6,818	756
Travel and transportation of persons.....	796	911	1,377	466
Transportation of things.....	-	-	-	-
Rents, communications and utilities:				
Rental payments to GSA.....	* 2,076	4,083	4,800	717
Rental payments to others.....	42	43	43	-
Other rents, communications and utilities.....	769	651	751	100
Printing and reproduction.....	200	250	250	-
Other services:				
Advisory & assistance services.....	773	180	180	-
Other services.....	4,009	** 15,405	10,821	(4584)
Purchase of goods/services from Govt. accts.....	9,956	8,756	9,503	747
Operation & maintenance of facilities.....	* 2,566	1,344	960	(384)
Medical care.....	107	108	120	12
Operation & maintenance of equipment.....	6,480	5,866	6,008	142
Subsistence & support of persons.....	-	-	-	-
Supplies and materials.....	335	334	369	35
Equipment.....	1,475	2,876	3,730	854
Total obligations.....	55,880	71,838	73,260	1,422
Unobligated balance available, SOY.....	(9,768)	(10,766)	(10,500)	266
Unobligated balance available, EOY.....	10,766	10,500	10,500	-
Unobligated balance expiring.....	353	350	370	20
Total enacted appropriations and budget estimate	57,231	71,922	73,630	1,708

* A portion of rental payments to GSA were executed in Ops & Maint of facilities to provide funds to GSA for tenant improvement/buildout of new space.

** increase of \$5M is BSA Direct funding

VERIFICATION AND VALIDATION OF DATA & PERFORMANCE MEASUREMENT DEFINITIONS – Exhibit 4f

For each performance measure, a definition, as well as verification and validation information, is provided below. Based on the verification and validation information, each measure's data is rated as having either: "Reasonable Accuracy" (judged to be sufficiently accurate for program management and performance reporting purposes) or as "Questionable or Unknown Accuracy." In the case of measures where statistical confidence intervals are available, these are provided instead of the rating statements above.

BUDGET ACTIVITY 1: INVESTIGATIVE ANALYSIS AND BSA ADMINISTRATION

- **Performance Measure.** Number of vulnerable industries covered by anti-money laundering regulations.

Definition: The number of financial industries covered by the Bank Secrecy Act anti-money laundering reporting and recordkeeping requirements. The dates indicate when the requirements actually become effective rather than when the rules are issued.

How Data is Captured: A list of industries is provided by FinCEN's Office of Chief Counsel on a quarterly basis.

Verification and Validation of Data Quality: The results are validated by checking the final regulations to confirm the effective date.

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure.** Average time to process matters in which civil enforcement remedies may be appropriate.

Definition: This measure tracks annual average case processing time for civil penalty matters received by FinCEN after January 1, 1998. The enforcement matters are entered into the automated log and evaluated to determine whether there is enforcement potential through a civil monetary penalty or otherwise. FinCEN has established management process guidelines to reduce the average processing time for civil penalty cases.

How Data is Captured: The average case processing time is calculated annually, using the data captured through an internal database that tracks enforcement matters. The database on enforcement matters is maintained to record the date cases were

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received, the analyst assigned to the matter, the statute of limitations date, and the date each case was closed. The database of enforcement matters is maintained and updated continually.

Verification and Validation of Data Quality:

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure.** Number of users directly accessing BSA data through FinCEN's web based system.

Definition: The number of individuals with current passwords who have accessed the BSA data through the Secure Outreach network in the past 90 days.

How Data is Captured: The system generates a list of these users.

Verification and Validation of Data Quality: The list can be checked through the Profile function at the Detroit Computing Center.

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure.** Percentage of customers finding FinCEN's investigative support valuable.

Definition: This performance measure combines data from surveys on strategic analytical products, investigative case reports, and investigative targets.

How Data is Captured: For investigative case reports, a listed sample of 262 law enforcement customers was surveyed by a contractor via telephone. The results had a margin of error of + or – 6.1 percentage points at a 95% confidence interval. The results of the survey will be compiled biennially, after FY 2003. For strategic analytical products and investigative targets, the surveys will be conducted biennially by a contractor using a survey instrument. The contractor's performance work statement will require a margin of error of + or – 5 percentage points at a 95% confidence level. An average score tracking the value of the three investigative products will be used to establish an overall indicator of the value of investigative support. The baseline score will be established in FY 2005.

Verification and Validation of Data Quality: The results will be validated using standard statistical models.

Data Accuracy: **Reasonable Accuracy**

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- **Performance Measure.** Share of BSA filings submitted electronically. (Discontinued)

Definition: The number of BSA filings submitted via the web-based Patriot Act Communications System.

How Data is Captured: Reports are generated weekly by the PACS contractor based on automated tracking.

Verification and Validation of Data Quality: Reports are checked against reports from the Detroit Computing Center.

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure.** Percentage of customers (financial institutions) satisfied with FinCEN's regulatory guidance. (Discontinued)

Definition: The share of financial institution customers who are satisfied with the regulatory guidance provided by FinCEN, as a percentage of the total. On an ongoing basis, FinCEN provides guidance and assistance to the regulated industries and federal regulators on the provisions of the Bank Secrecy Act through responses to phone, written and e-mail inquiries.

How Data is Captured: A sample of 200 customers was surveyed by a contractor via telephone. The results had a margin of error of + or – 6.9 percentage points at a 95% confidence interval. The results of the survey will be compiled biennially.

Verification and Validation of Data Quality: The results will be validated using standard statistical models.

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure.** Number of subjects in completed investigative analytical reports. (Discontinued)

Definition: The number of subjects, such as business associates, linked together with bank accounts, property records, and other information, in investigative analytical reports prepared by FinCEN analysts. The number of subjects researched and/or identified is an indicator of the complexity and volume of case research over time. It also indicates the level of manpower and computer support required to complete the investigative analytical reports.

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How Data is Captured: Each research request is given a unique case number. Automated systems are used to track and monitor this information. The results are available on an ongoing basis.

Verification and Validation of Data Quality: Data are reviewed on a quarterly basis.

Data Accuracy: **Reasonable Accuracy.**

- **Performance Measure:** Percentage of FinCEN's customers rating its investigative targets as valuable. (Discontinued)

Definition: This measures the share of our financial industry customers who rate FinCEN's investigative targets as valuable.

How Data is Captured: A survey will be conducted biennially by a contractor using a survey instrument. The contractor's performance work statement will require a margin of error of + or -5 percentage points at a 95% confidence level.

Verification and Validation of Data Quality: The results will be validated using standard statistical models.

Data Accuracy: **Reasonable Accuracy**

- **Performance Measure:** Percentage of FinCEN's customers rating its strategic analytical products as valuable. (Discontinued)

Definition: This measures the share of our financial industry customers who rate FinCEN's specialized analytical products as valuable. FinCEN provides a variety of different products to regulators, financial institutions, and law enforcement, which examine the 'macro-level' issues regarding money laundering, terrorist financing and other financial crimes. One of the most important products is the SAR Activity Review, Trends, Tips and Issues. The semi-annual publication provides meaningful information about the preparation, use, and value of the Suspicious Activity Reports filed by financial institutions.

How Data is Captured: The survey will be conducted biennially by a contractor using a survey instrument. The contractor's performance work statement will require a margin of error of + or -5 percentage points at a 95% confidence level.

Verification and Validation of Data Quality: The results will be validated using standard statistical models.

Data Accuracy: **Reasonable Accuracy**

- **Performance Measure.** Number of strategic analytic products. (Discontinued)

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Definition: The number of strategic analytic products prepared on a wide range of topics, including geographic regions, specific industries, and/or financial service areas. The products are comprehensive in nature and are intended to directly support law enforcement, analytical, and/or investigative efforts and assist the law enforcement, regulatory, and/or banking communities to better detect and prevent money-laundering and terrorist financing activities. These reports contain conclusions, recommendations, and alternatives on various ways and means to attack identified vulnerabilities.

How Data is Captured: Physical count.

Verification and Validation of Data Quality: Data for this measure is maintained by FinCEN's Office of Strategic Analysis. Numbers can be validated through inspection.

Data Accuracy: **Reasonable Accuracy**

Budget Activity 2: Money Services Businesses (MSB) Regulatory Program:

- **Performance Measure.** Number of Money Services Businesses registered. (Discontinued)

Definition: This measure provides the total number of MSBs registered. A regulation required the registration of Money Services Businesses (MSBs) effective January 1, 2002. FinCEN's MSB Regulatory Program supports efforts to identify and educate institutions concerning the new regulatory requirements, including the registration of MSBs.

How Data is Captured: Registrations are automatically captured by IRS's Detroit Computing Center on an ongoing basis.

Verification and Validation of Data Quality: The data is subject to periodic review and audit.

Data Accuracy: **Reasonable Accuracy.**

SUMMARY OF CAPITAL INVESTMENTS – TABLE 4-7**(Dollars in Thousands)**

Project Name	Cumulative thru FY 2004	FY 2005	FY 2006
Sustain Current Operations:			
Patriot Act Communications System*	6,699	3,049	1,418
Egmont	600	674	200
FinCEN Infrastructure	33,449	8,172	8,672
Subtotal	40,748	11,895	10,290
In-Process Capital Projects:			
Secure Outreach	6,490	2,432	1,988
Advanced Analytical	2,080	672	1,065
Subtotal	8,570	3,104	3,053
Proposed New Capital Projects:			
BSA Direct Connect**	2,766	7,644	2,500
Subtotal	2,766	7,644	2,500
Grand Total	52,084	22,643	15,843

*FinCEN base funding for PACS is \$500K. \$1.0M of funding from IRS.

**Project begun in FY 2004 using one-time funding from multi-year IT funding and TFF.